

**REPORT OF THE AUDIT OF THE  
LETCHER COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2013**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**LETCHER COUNTY FISCAL COURT**

**June 30, 2013**

The Auditor of Public Accounts has completed the audit of the Letcher County Fiscal Court for fiscal year ended June 30, 2013.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Cash Balances and Cash Equivalents - Regulatory Basis of Letcher County, Kentucky.

**Financial Condition:**

The Letcher County Fiscal Court had total receipts of \$12,750,776 and disbursements of \$13,832,558 in fiscal year 2013. This resulted in total ending cash balances and cash equivalents of \$2,600,182, which is a decrease of \$1,081,782 from the prior year.

**Report Comment:**

2013-01 Internal Controls Over Transfer Station Receipts Need To Be Improved

**Deposits:**

The fiscal court deposits were insured and collateralized by bank securities.



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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Jim Ward, Letcher County Judge/Executive  
Members of the Letcher County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Cash Balances and Cash Equivalents - Regulatory Basis of Letcher County, Kentucky, for the year ended June 30, 2013, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in more fully in Note 1, the financial statement is prepared by Letcher County, Kentucky on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Letcher County, Kentucky as of June 30, 2013, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash balances and cash equivalents of Letcher County, Kentucky as of June 30, 2013, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

### **Emphasis of Matters**

As discussed in Note 1 to the financial statement, in fiscal year 2013, the Letcher County Fiscal Court adopted new accounting guidance on a regulatory basis. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statement, the Letcher County Fiscal Court would have been included some component entities under accounting principles generally accepted in the United State of America (GAAP) as established by the Government Accounting Standards Board. However, under the regulatory basis they are no longer are required components of the reporting entity. Our opinion is not modified with respect to this matter.

In our report dated November 13, 2014, we expressed an unmodified opinion on the Statement of Receipts, Disbursements, and Changes in Cash Balances and Cash Equivalents – Regulatory Basis of Letcher County, Kentucky. This report erroneously included the Recreation Center Bond Fund. Subsequent to the date of our report, the fiscal court revised its financial statement to correct this error, as described in Note 12. In consideration of this change, additional audit work was performed, resulting in a reissued report dual dated for this matter. Our opinion on the revised financial statement, as presented herein, remains unmodified as expressed in our previous report.

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### Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Letcher County, Kentucky. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statements, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The budgetary comparison schedules and capital asset schedule have been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and capital asset schedule are fairly stated in all material respects in relation to the basic financial statement.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 13, 2014 on our consideration of Letcher County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation included herein, which discusses the following report comments:

2013-01 Internal Controls Over Transfer Station Receipts Need To Be Improved

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

November 13, 2014, except as to Note 12, which  
is as of August 3, 2015.

LETCHER COUNTY OFFICIALS

For The Year Ended June 30, 2013

**Fiscal Court Members:**

Jim Ward	County Judge/Executive
Bobby Howard	Magistrate
Terry Adams	Magistrate
Codell Gibson	Magistrate
Keith Adams	Magistrate
Wayne Fleming	Magistrate

**Other Elected Officials:**

Billy Jamie Hatton	County Attorney
Don McCall	Jailer
Winston Meade	County Clerk
Margaret Nichols	Circuit Court Clerk
Danny Webb	Sheriff
Randy Hall	Property Valuation Administrator
Marty Baker	Coroner

**Appointed Personnel:**

Eddie Meade	Deputy Judge
Phillip Hampton	County Treasurer
D.J. Frazier	Finance Officer
Brandon Conley	911 Administrator
Johnny Ray Williams	Solid Waste Coordinator

**LETCHER COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN CASH BALANCES AND CASH EQUIVALENTS - REGULATORY BASIS**

**For The Year Ended June 30, 2013**

**LETCHER COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN CASH BALANCES AND CASH EQUIVALENTS - REGULATORY BASIS**

**For The Year Ended June 30, 2013**

	<b>Budgeted Funds</b>		
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>
<b>RECEIPTS</b>			
Taxes	\$ 1,406,258	\$ 9,648	\$
Excess Fees	36,474		
Licenses and Permits	23,911		
Intergovernmental	119,453	2,200,712	374,242
Charges for Services	1,159,442		14,264
Miscellaneous	410,807	309,723	15,891
Interest	1,182	2,416	526
Total Receipts	<u>3,157,527</u>	<u>2,522,499</u>	<u>404,923</u>
<b>DISBURSEMENTS</b>			
General Government	1,066,663	26,443	
Protection to Persons and Property	194,315		781,053
General Health and Sanitation	1,006,352		
Social Services	12,185		
Recreation and Culture			
Roads		1,549,101	
Airports			
Debt Service		239,187	
Capital Projects	65,754		
Administration	897,723	536,509	294,471
Total Disbursements	<u>3,242,992</u>	<u>2,351,240</u>	<u>1,075,524</u>
Excess (Deficiency) of Receipts Over			
Disbursements Before Other			
Adjustments to Cash (Uses)	<u>(85,465)</u>	<u>171,259</u>	<u>(670,601)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Transfers From Other Funds			375,000
Transfers To Other Funds	<u>(197,373)</u>		
Total Other Adjustments to Cash (Uses)	<u>(197,373)</u>		<u>375,000</u>
Net Change in Cash Balances and Cash Equivalents	(282,838)	171,259	(295,601)
Cash Balances and Cash Equivalents - Beginning (Restated)	827,594	356,949	335,706
Cash Balances and Cash Equivalents - Ending	<u>\$ 544,756</u>	<u>\$ 528,208</u>	<u>\$ 40,105</u>

The accompanying notes are an integral part of the financial statement.

**LETCHER COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN CASH BALANCES AND CASH EQUIVALENTS - REGULATORY BASIS**  
**For The Year Ended June 30, 2013**  
**(Continued)**

Budgeted Funds			Unbudgeted Funds			Total Funds
Local Government Economic Assistance Fund	Forestry Fund	Senior Citizens Fund	Public Properties Corporation 1999 Bond Fund	Recreation Center Construction Fund	Jail Commissary Fund	
\$ 23,648	\$ 3,744	\$	\$	\$	\$	\$ 1,443,298
						36,474
						23,911
5,625,653		191,789	128,000			8,639,849
380,356						1,554,062
119,596		12,915			174,724	1,043,656
3,326		372	1,650	54		9,526
6,152,579	3,744	205,076	129,650	54	174,724	12,750,776
124,606						1,217,712
237,849	2,146				159,912	1,375,275
303,803		83,200				1,393,355
57,461		592,534				662,180
745,425						745,425
934,536						2,483,637
3,268						3,268
560,088			294,768			1,094,043
2,470,783						2,536,537
406,773		185,650				2,321,126
5,844,592	2,146	861,384	294,768		159,912	13,832,558
307,987	1,598	(656,308)	(165,118)	54	14,812	(1,081,782)
		525,000	197,373			1,097,373
(900,000)						(1,097,373)
(900,000)		525,000	197,373			
(592,013)	1,598	(131,308)	32,255	54	14,812	(1,081,782)
958,884	10,481	213,266	571,376	318,798	88,910	3,681,964
\$ 366,871	\$ 12,079	\$ 81,958	\$ 603,631	\$ 318,852	\$ 103,722	\$ 2,600,182

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

**June 30, 2013**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The financial statement of Letcher County includes all budgeted and unbudgeted funds under the control of the Letcher County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation created to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

**B. Basis of Accounting**

The financial statement is presented on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of cash and cash equivalents and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

**C. Basis of Presentation**

**Budgeted Funds**

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2013**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

Road Fund - This fund is for road and bridge construction and repair. The primary source of receipts for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Forestry Fund - The primary purpose of this fund is to account for the forest fire expenses of the county. The primary source of receipts for this fund is the taxes received.

Senior Citizens Fund - The primary purpose of this fund is to account for senior citizens expenses of the county. The primary source of receipts for this fund is state grants.

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted funds:

1999 Public Properties Corporation Bond Fund - The purpose of this fund is to account for debt service requirements of the general obligation refunding bond, Series 2008. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

Recreation Center Construction Fund - The primary purpose of this fund is to account for the lease proceeds that were issued to fund construction of the recreation center. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2013**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Commissary Fund to be budgeted because the fiscal court does not approve the expenses of these funds.

The State Local Finance Officer does not require the Public Properties Corporation 1999 Bond Fund and the Recreation Center Construction Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

**E. Letcher County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Letcher County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Letcher County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2013**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**G. Long-term Obligations**

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

**Note 2. Deposits**

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2013, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2013**  
**(Continued)**

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2013.

	General Fund	Local Government Economic Assistance Fund	Total Transfers In
Jail Fund	\$	\$ 375,000	\$ 375,000
Senior Citizens Fund		525,000	525,000
Public Properties Corporation			
1999 Bond Fund	197,373		197,373
Total Transfers Out	<u>\$197,373</u>	<u>\$ 900,000</u>	<u>\$ 1,097,373</u>

Reason for transfers:

To move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them.

**Note 4. Trust Funds**

Trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following trust funds:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the Jail Inmate Fund as of June 30, 2013 was \$103,722.

FSA/HRA Fund - This fund accounts for employee and employer contributions to reimburse employees for health care expenses. The balance in the FSA account is \$23,416 and the balance in the HRA account is \$13,949.

Health Reimbursement Account - To account for county contributions to individual health accounts maintained for each employee.

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2013**  
**(Continued)**

**Note 5. Short-term Debt**

**A. 2008 KACoLT Truck Lease**

On December 9, 2011, the Letcher County Fiscal Court entered into a lease agreement in the amount of \$233,202 with Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of two trucks. The lease agreement requires one (1) principal payment on June 20, 2013 and monthly interest payments. In May of 2013 the trucks are to be auctioned off with the proceeds to be used to pay the outstanding principal of the lease. The principal balance outstanding as of June 30, 2012 is \$233,202. This lease was paid off.

**B. KACoLT Truck Lease**

On November 20, 2012, the Letcher County Fiscal Court entered into a lease agreement in the amount of \$249,744 with Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of two trucks. The lease agreement requires one (1) principal payment on June 20, 2014 and monthly interest payments. In May of 2014 the trucks are to be auctioned off with the proceeds to be used to pay the outstanding principal of the lease. The principal balance outstanding as of June 30, 2013 is \$249,744.

**C. Changes In Short-term Debt**

Short-term Debt activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 223,202	\$249,744	\$ 223,202	\$ 249,744	\$ 249,744
Total Short-term Debt	<u>\$ 223,202</u>	<u>\$249,744</u>	<u>\$ 223,202</u>	<u>\$ 249,744</u>	<u>\$ 249,744</u>

**Note 6. Long-term Debt**

**A. Revenue Bonds, Series 1999**

On January 18, 1999, the Letcher County Public Properties Corporation issued bonds in order to renovate the courthouse and detention center. The Public Properties Corporation and the Administrative Office of the Courts (AOC) entered into a lease agreement dated January 1, 1999, for the purpose of obtaining office rental space for AOC.

The premises leased by AOC will provide revenues to pay a portion of the bond principal and interest. Under the terms of the lease, the AOC has agreed to pay directly to the paying agents' bank their prorated share of the use allowance payment as provided in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the use allowance payment in order to meet a portion of the debt service requirement for the bonds.

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2013**  
**(Continued)**

**Note 6. Long-term Debt (Continued)**

**A. Revenue Bonds, Series 1999 (Continued)**

The use allowance payment commenced with occupancy by AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until May 1, 2027, but the lease does not legally obligate AOC to do so. As of June 30, 2013, the principal balance remaining is \$3,008,000. Future bond payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2014	\$ 153,000	\$ 142,880
2015	159,000	135,613
2016	168,000	128,060
2017	177,000	120,080
2018	185,000	111,671
2019-2023	1,083,000	416,623
2024-2027	<u>1,083,000</u>	<u>131,718</u>
Totals	<u>\$ 3,008,000</u>	<u>\$ 1,186,645</u>

**B. 2008 Recreation Center Lease**

On September 29, 2008, the Fiscal Court entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for the construction of a recreation center. The lease agreement requires monthly interest payments and annual principal payments. The principal was \$500,000 and the interest rate is variable. As of June 30, 2013, the principal balance remaining is \$449,000. Future principal and interest payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 11,000	\$ 17,208
2015	12,000	16,776
2016	12,000	16,359
2017	13,000	15,854
2018	13,000	15,362
2019-2023	76,000	68,651
2024-2028	92,000	53,282
2029-2033	112,000	33,660
2034-2037	<u>108,000</u>	<u>10,268</u>
Totals	<u>\$ 449,000</u>	<u>\$ 247,420</u>

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2013**  
**(Continued)**

**Note 6. Long-term Debt (Continued)**

**C. Recreation Center Bond, Series 2011**

On May 24, 2010, the Fiscal Court entered into a \$7,000,000 agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for the construction of a recreation center. On March 1, 2011, before any principal payments were made, the lease was refinanced for \$7,300,000. The agreement requires monthly principal and interest payments commencing on April 1, 2011 and ending January 1, 2041. The lease proceeds were deposited with the US Bank with the Kentucky Association of Counties Leasing Trust as the Administrator. As of June 30, 2013, the principal balance remaining is \$7,025,000. Future principal and interest payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2014	\$ 122,083	404,981
2015	127,083	400,403
2016	132,083	395,638
2017	137,083	390,403
2018	142,083	367,560
2019-2023	816,667	1,737,203
2024-2028	1,052,917	1,511,250
2029-2033	1,390,417	1,186,970
2034-2038	1,887,917	718,700
2039-2041	1,216,667	136,300
Totals	<u>\$ 7,025,000</u>	<u>\$ 7,249,408</u>

**D. Sheriff's Vehicle Lease**

On May 2, 2011, the Fiscal Court entered into an agreement with Kentucky Association of Counties (KACO) Leasing Trust for the purchase of four (4) vehicles for the Sheriff's office. The lease was for \$100,181 and the lease requires monthly principal and interest payments commencing on May 20, 2011 and ending April 20, 2015. As of June 30, 2013, the principal balance remaining is \$47,516. Future principal and interest payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2014	\$ 25,571	\$ 1,632
2015	21,945	459
Totals	<u>\$ 47,516</u>	<u>\$ 2,091</u>

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2013**  
**(Continued)**

**Note 6. Long-term Debt (Continued)**

**E. Changes In Long-term Debt**

Long-term Debt activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 3,153,000	\$	\$ 145,000	\$ 3,008,000	\$ 153,000
Financing Obligations	7,664,779		143,263	7,521,516	158,654
Total Long-term Debt	<u>\$ 10,817,779</u>	<u>\$ 0</u>	<u>\$ 288,263</u>	<u>\$10,529,516</u>	<u>\$ 311,654</u>

**Note 7. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 19.55 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 37.60 percent.

The county's contribution for FY 2011 was \$672,640, FY 2012 was \$742,899, and FY 2013 was \$775,370.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2013**  
**(Continued)**

**Note 7. Employee Retirement System (Continued)**

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2013**  
**(Continued)**

**Note 8. Deferred Compensation**

On February 4, 2000, the Letcher County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 9. Insurance**

For the fiscal year ended June 30, 2013, Letcher County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 10. Change in Basis of Accounting and Prior Period Adjustments**

Letcher County, Kentucky, has changed its basis of accounting from presenting its financial statements in accordance with the modified cash basis of accounting and relevant Government Accounting Standards Board (GASB) pronouncements to the regulatory basis of accounting as prescribed or permitted by the Department for Local Government and the laws of the Commonwealth of Kentucky. The net effect was a decrease to the beginning balance of the General Fund and an increase to the beginning balance of the Senior Citizens Fund by \$213,266 on the *Statement of Receipts, Disbursements, and Changes in Cash Balances and Cash Equivalents - Regulatory Basis*.

**Note 11. Prior Period Adjustments**

The beginning cash balances of the General Fund and the Local Government Economic Assistance Fund were restated in the amount of \$1,189 and \$240, respectively.

**Note 12. Restatement of Statement of Receipts, Disbursements, and Changes in Cash Balances and Cash Equivalents**

Subsequent to the issuance of the Report of the Audit of the Letcher County Fiscal Court for the fiscal year ended, the Letcher County Fiscal Court discovered an error on its financial statement. The original Statement of Receipts, Disbursements, and Changes in Cash Balances and Cash Equivalents – Regulatory Basis erroneously included the Recreation Center Bond Fund. The revised Statement of Receipts, Disbursements, and Changes in Cash Balances and Cash Equivalents has been adjusted for this error.

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**LETCHER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2013**



**LETCHER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2013**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Taxes	\$ 1,415,000	\$ 1,415,000	\$ 1,406,258	\$ (8,742)
Excess Fees	8,155	8,155	36,474	28,319
Licenses and Permits	23,917	23,917	23,911	(6)
Intergovernmental	88,204	88,204	119,453	31,249
Charges for Services	1,061,000	1,061,000	1,159,442	98,442
Miscellaneous	845,200	845,200	410,807	(434,393)
Interest	2,400	2,400	1,182	(1,218)
Total Receipts	<u>3,443,876</u>	<u>3,443,876</u>	<u>3,157,527</u>	<u>(286,349)</u>
<b>DISBURSEMENTS</b>				
General Government	1,091,155	1,278,455	1,066,663	211,792
Protection to Persons and Property	180,700	198,914	194,315	4,599
General Health and Sanitation	624,402	1,017,402	1,006,352	11,050
Social Services	15,600	15,600	12,185	3,415
Debt Service	326,000	326,000		326,000
Capital Projects	30,000	70,000	65,754	4,246
Administration	1,321,943	1,517,492	897,723	619,769
Total Disbursements	<u>3,589,800</u>	<u>4,423,863</u>	<u>3,242,992</u>	<u>1,180,871</u>
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)	<u>(145,924)</u>	<u>(979,987)</u>	<u>(85,465)</u>	<u>894,522</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	145,924	145,924		(145,924)
Transfers To Other Funds			(197,373)	(197,373)
Total Other Adjustments to Cash (Uses)	<u>145,924</u>	<u>145,924</u>	<u>(197,373)</u>	<u>(343,297)</u>
Net Change in Cash Balances and Cash Equivalents		(834,063)	(282,838)	551,225
Cash Balances and Cash Equivalents - Beginning (Restated)		<u>834,063</u>	<u>827,594</u>	<u>(6,469)</u>
Cash Balances and Cash Equivalents - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 544,756</u>	<u>\$ 544,756</u>

**LETCHER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2013**  
**(Continued)**

<b>ROAD FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
In Lieu Tax Payments	\$ 2,620	\$ 2,620	\$ 9,648	\$ 7,028
Intergovernmental	1,514,026	1,988,863	2,200,712	211,849
Miscellaneous	225,050	225,050	309,723	84,673
Interest	3,600	3,600	2,416	(1,184)
Total Receipts	1,745,296	2,220,133	2,522,499	302,366
<b>DISBURSEMENTS</b>				
General Government	31,443	31,443	26,443	5,000
Roads	787,974	1,597,974	1,549,101	48,873
Debt Service	244,000	244,000	239,187	4,813
Administration	535,955	557,741	536,509	21,232
Total Disbursements	1,599,372	2,431,158	2,351,240	79,918
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	145,924	(211,025)	171,259	382,284
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	(145,924)	(145,924)		145,924
Total Other Adjustments to Cash (Uses)	(145,924)	(145,924)		145,924
Net Change in Cash Balances and Cash Equivalents		(356,949)	171,259	528,208
Cash Balances and Cash Equivalents - Beginning		356,949	356,949	
Cash Balances and Cash Equivalents - Ending	\$ 0	\$ 0	\$ 528,208	\$ 528,208

**LETCHER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2013**  
**(Continued)**

<b>JAIL FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 385,690	\$ 385,690	\$ 374,242	\$ (11,448)
Charges for Services	25,600	25,600	14,264	(11,336)
Miscellaneous	13,500	13,500	15,891	2,391
Interest	1,500	1,500	526	(974)
Total Receipts	426,290	426,290	404,923	(21,367)
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	686,912	886,712	781,053	105,659
Administration	270,500	406,431	294,471	111,960
Total Disbursements	957,412	1,293,143	1,075,524	217,619
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(531,122)	(866,853)	(670,601)	196,252
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	531,122	531,122	375,000	(156,122)
Total Other Adjustments to Cash (Uses)	531,122	531,122	375,000	(156,122)
Net Change in Cash Balances and Cash Equivalents		(335,731)	(295,601)	40,130
Cash Balances and Cash Equivalents - Beginning		335,731	335,706	(25)
Cash Balances and Cash Equivalents - Ending	\$ 0	\$ 0	\$ 40,105	\$ 40,105

**LETCHER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2013**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 35,700	\$ 35,700	\$ 23,648	\$ (12,052)
Intergovernmental	4,339,372	6,333,352	5,625,653	(707,699)
Charges for Services			380,356	380,356
Miscellaneous	502,000	502,000	119,596	(382,404)
Interest	5,200	5,200	3,326	(1,874)
Total Receipts	4,882,272	6,876,252	6,152,579	(723,673)
<b>DISBURSEMENTS</b>				
General Government	82,220	132,920	124,606	8,314
Protection to Persons and Property	235,672	262,672	237,849	24,823
General Health and Sanitation	578,958	588,558	303,803	284,755
Social Services	54,000	60,500	57,461	3,039
Recreation and Culture	1,138,800	832,276	745,425	86,851
Roads	1,110,000	1,110,000	934,536	175,464
Airports	1,500	3,500	3,268	232
Debt Service		568,024	560,088	7,936
Capital Projects	2,000	2,494,196	2,470,783	23,413
Administration	463,000	526,773	406,773	120,000
Total Disbursements	3,666,150	6,579,419	5,844,592	734,827
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	1,216,122	296,833	307,987	11,154
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	(1,216,122)	(1,216,122)	(900,000)	316,122
Total Other Adjustments to Cash (Uses)	(1,216,122)	(1,216,122)	(900,000)	316,122
Net Change in Cash Balances and Cash Equivalents		(919,289)	(592,013)	327,276
Cash Balances and Cash Equivalents - Beginning (Restated)		919,289	958,884	39,595
Cash Balances and Cash Equivalents - Ending	\$ 0	\$ 0	\$ 366,871	\$ 366,871

**LETCHER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2013**  
**(Continued)**

<b>FORESTRY FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 4,000	\$ 4,000	\$ 3,744	\$ (256)
Total Receipts	4,000	4,000	3,744	(256)
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	4,000	4,000	2,146	1,854
Total Disbursements	4,000	4,000	2,146	1,854
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			1,598	1,598
Net Change in Cash Balances and Cash Equivalents			1,598	1,598
Cash Balances and Cash Equivalents - Beginning			10,481	10,481
Cash Balances and Cash Equivalents - Ending	\$ 0	\$ 0	\$ 12,079	\$ 12,079

**LETCHER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2013**  
**(Continued)**

<b>SENIOR CITIZENS FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 200,000	\$ 200,000	\$ 191,789	\$ (8,211)
Miscellaneous	12,800	12,800	12,915	115
Interest	600	600	372	(228)
Total Receipts	213,400	213,400	205,076	(8,324)
<b>DISBURSEMENTS</b>				
General Health and Sanitation	80,000	84,000	83,200	800
Social Services	603,400	628,900	592,534	36,366
Administration	215,000	185,500	185,650	(150)
Total Disbursements	898,400	898,400	861,384	37,016
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(685,000)	(685,000)	(656,308)	28,692
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	685,000	685,000	525,000	(160,000)
Total Other Adjustments to Cash (Uses)	685,000	685,000	525,000	(160,000)
Net Change in Cash Balances and Cash Equivalents			(131,308)	(131,308)
Cash Balances and Cash Equivalents - Beginning			213,266	213,266
Cash Balances and Cash Equivalents - Ending	\$ 0	\$ 0	\$ 81,958	\$ 81,958

**LETCHER COUNTY**  
**NOTES TO SUPPLEMENTARY INFORMATION**

**June 30, 2013**

**Note 1. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

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**LETCHER COUNTY**  
**SUPPLEMENTARY SCHEDULE**  
**Other Information - Regulatory Basis**  
  
**For The Year Ended June 30, 2013**



**LETCHER COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Other Information - Regulatory Basis**

**For The Year Ended June 30, 2013**

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 2,023,500	\$	\$	\$ 2,023,500
Construction In Progress	7,514,287		7,514,287	
Buildings	7,949,546	7,514,287		15,463,833
Vehicles	2,432,248	168,175		2,600,423
Vehicles-Jail Commissary	34,743			34,743
Equipment	420,464			420,464
Infrastructure	2,841,094	633,347		3,474,441
 Total Capital Assets	 <u>\$ 23,215,882</u>	 <u>\$ 8,315,809</u>	 <u>\$ 7,514,287</u>	 <u>\$24,017,404</u>

**LETCHER COUNTY**  
**NOTES TO OTHER INFORMATION**

**June 30, 2013**

**Note 1. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Jim Ward, Letcher County Judge/Executive  
Members of the Letcher County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Cash Balances and Cash Equivalents - Regulatory Basis of the Letcher County Fiscal Court for the fiscal year ended June 30, 2013, and the related notes to the financial statement and have issued our report thereon dated November 13, 2014. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Letcher County Fiscal Court's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Letcher County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Letcher County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control that we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2013-01 to be a material weakness.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Letcher County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**County Judge's Response to Finding**

The Letcher County Judge's response to the finding identified in our audit is described in the accompanying comment and recommendation. The County Judge's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

November 13, 2014

**LETCHER COUNTY  
COMMENT AND RECOMMENDATION**

**For The Year Ended June 30, 2013**



**LETCHER COUNTY**  
**COMMENT AND RECOMMENDATION**

**Fiscal Year Ended June 30, 2013**

**INTERNAL CONTROL - MATERIAL WEAKNESS:**

**2013-01 Internal Controls Over Transfer Station Receipts Need To Be Improved**

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The internal controls over the transfer station need to be improved. Due to the high volume and nature the transfer station, receipts are susceptible to misappropriations.

Per KRS 64.840, all county officials shall upon the receipt of any fee prepare a receipt that meets the specifications of the state local finance officer. One copy of the receipt shall be given to the person paying the fee, one copy shall be retained by the official for his own records, and one copy of the receipt shall be retained by the official to be placed with the daily bank deposit.

Counties are required to record receipts and disbursements in accordance with the Budget Manual provided by the Department for Local Government. This manual states that the uniform system of accounts requires that receipts be recorded when received and disbursements to be recorded when paid (cash basis). The manual also promulgates accounting codes to be used by counties.

Misappropriation of receipts could occur and not be detected and corrected on a timely basis. This lack of adequate controls over receipts could result in misappropriations of receipts.

We recommend that receipts be issued in numerical order. One copy of the receipt shall be given to the person paying the fee, one copy shall be retained by the official for his own records, and one copy of the receipt shall be retained by the official to be placed with the daily bank deposit. A daily checkout sheet should be prepared on a daily basis. We also recommend that transfer station implement these procedures to eliminate such internal control weaknesses in the future.

*County Judge/Executive Jim Ward's Response: It came to my attention there might be discrepancies in the collection of funds from the transfer station to the sanitation billing office. In order to correct this problem, I changed the personnel in the sanitation billing office. I moved two employees to the sanitation billing office and implemented a new system of checks and balances procedures to further secure the collection of the funds coming in to the sanitation department and the transfer station. We have receipt books that are numbered in numerical order. The Sanitation Director brings the numbered receipts, log sheet and daily check out sheets signed by himself and the worker at the transfer station every day. These are checked by the sanitation billing clerk. The clerk prepares her own daily check out sheet that is signed by the director and clerk. They write the director a receipt for funds turned in each day. The director and billing clerk both keep a copy of all daily transactions, receipts and documents. At the end of the month, the billing clerk makes sure the daily deposits and corresponding documentation balances. A copy of all reports and deposits for each day are given to the treasurer.*

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**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM**

**LETCHER COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2013**



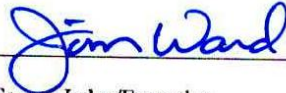
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM

LETCHER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2013

The Letcher County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in blue ink, appearing to read "Jim Ward", written over a horizontal line.

County Judge/Executive

A handwritten signature in blue ink, appearing to read "Deep Hight", written over a horizontal line.

County Treasurer

